COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE TARIFF FILING OF COLUMBIA GAS OF KENTUCKY, INC. TO IMPLEMENT GAS COST INCENTIVE RATE MECHANISMS	))))	CASE NO. 96-079

O R D E R

IT IS ORDERED that Columbia Gas of Kentucky, Inc. ("Columbia") shall file the original and 10 copies of the following information with the Commission no later than May 20, 1996. When a response requires multiple pages, each page should be indexed appropriately, for example, Item 1(a), Page 2 of 4. With each response, include the name of the witness who will be responsible for responding to questions related thereto. Careful attention should be given to copied material to ensure that it is legible.

1. Explain the location adjustment for WACOG.

2. Why should the sharing for capacity release that is inherent in a bundled sale be different from the sharing allowed for capacity release?

3. Is it Columbia's current practice to credit ratepayers for revenues received for all types of capacity releases, including supplier, end-user, and marketed?

4. Are marketed releases the only type of release that Columbia plans to be applicable to the capacity release incentive plan?

5. State Columbia's position regarding the following: Establish a benchmark for transportation costs and use revenues from marketed capacity release as an offset to this benchmark. The transportation benchmark would be equivalent to Columbia's current pipeline entitlements at the FERC-approved rate. The net effect would not differ from Columbia's proposal, but a format would be in place to allow for future additions if needed.

6. Refer to Columbia's response to Item 1 of the Commission's April 24, 1996 Order. If an opportunity to sell storage gas at a price above the WACOG occurs and Columbia makes the sale, could a situation arise in which that gas has to be replaced with higher cost gas? If yes, is the value of the incentive to the captive customer reduced?

7. If Columbia replaces the gas it sold under one of the proposed incentive plans with gas that cost the original WACOG of the gas it is replacing plus 51 percent of the increment made on the sale, would customers be better or worse off as a result of the sale?

8. Does Columbia have any safeguards in place to insure that gas it had stored for future system use is not replaced through the incentive proposals with higher priced gas? If yes, provide copies of the policies that will prevent this from happening. If no, explain why not.

9. Refer to Columbia's response to Item 3 of the Commission's April 24, 1996 Order. Explain how the risks of nonpayment will be shared between ratepayers and shareholders.

10. According to the terms listed in the January 22, 1996 letter written on behalf of Columbia Gas of Maryland, Inc. ("Columbia/Maryland"), and included in Columbia's response to Item 5 of the Commission's April 24, 1996 Order, Columbia/Maryland agreed to withdraw its proposal to take into account the effect of income taxes on off-system sales or exchanges of gas. Explain why Columbia (of Kentucky) believes an income tax effect should be reflected on any of the sales proposed in its incentive plans proposals for Kentucky operations.

11. Refer to Columbia's response to Item 5 of the Commission's April 24, 1996 Order. Why was no gas procurement incentive proposed in Kentucky?

12. Refer to Columbia's response to Item 5 of the Commission's April 24, 1996 Order. Is the sharing on the off-system sales on a gross revenue basis or net revenue basis?

13. Refer to Columbia's response to Item 6 of the Commission's April 24, 1996 Order. Does Columbia of Pennsylvania know when an order will be issued? Provide a copy when it becomes available. Were there any stated conditions of approval or changes to the proposed program? If yes, please describe the conditions.

14. Refer to Columbia's response to Item 19 of the Commission's April 24, 1996 Order. If a purchaser of capacity or gas defaults on its obligation to Columbia, is it Columbia's proposal that the default amount serve to reduce the amount of revenues available for sharing under either of the proposals? Why?

15. Provide an analysis of the amount of defaults, in dollars and percent of total sales, experienced in each program approved in each of the jurisdictions where Columbia affiliates have these types of incentives approved.

16. Refer to Columbia's response to Item 18 of the Commission's April 24, 1996 Order. Provide an analysis of Columbia's experiences in Maryland and Pennsylvania that would substantiate Columbia's position that it has learned from the market experiences in those jurisdictions and should therefore receive a higher sharing provision than was agreed upon in those states.

17. Refer to Columbia's response to Item 29 of the Commission's April 24, 1996 Order. Provide a journal, spreadsheet, log or other methodology that Columbia will maintain on each sale made by Columbia. The spreadsheet should show the costs and revenues figured by Columbia and the basis for those items so that the net revenues generated and the sharing mechanisms proposed can be monitored, measured and reported to the Commission.

18. Provide the information which is currently under review by the Pennsylvania and Maryland Commissions which contains the accounting for the costs and revenues associated with the incentive programs.

19. Refer to Columbia's response to Item 30 of the Commission's April 24, 1996 Order. Does Columbia not intend to borrow gas?

20. Refer to Columbia's response to Item 31 of the Commission's April 24, 1996 Order. Would Columbia make available the sales information of the other CDCs on a periodic basis?

21. Refer to Columbia's response to Item 34 of the Commission's April 24, 1996 Order. Provide the underlying studies, data, calculations, etc. used to determine the allocations in the 1996 Standard General Office Allocation Percentages.

22. Discuss the impact that a higher rate of return on these targeted incentives will have on the projected overall earnings of Columbia. Include an explanation of how Columbia would view the earnings on these activities in relation to the overall rate of return when determining when to seek rate relief through a general rate increase.

a. Does Columbia believe it should earn 50 percent of the profits from these activities in addition to the overall rate of return found reasonable in its last rate case?

b. If Columbia fails to meet its authorized rate of return, after implementation of these programs, at what point would it seek a general rate increase?

c. To the extent that Columbia does not earn its overall rate of return, and the earnings on these segments of its business are earning substantial profits, would Columbia agree that these segments of its business are subsidizing the other operations? If yes, explain why this is proper. If Columbia disagrees, explain.

23. For the period ended December 31, 1995 provide the actual return on rate base and on capital. Provide supporting schedules which show how the rate base, capital structure, and operating income were determined. Include the projected income from the incentive rate mechanisms in income along with other pro forma adjustments to expense deemed appropriate. If any pro forma expense adjustments are included, provide a complete explanation and all supporting workpapers supporting the adjustments.

24. Refer to the Business Plan provided in response to Item 43 of the Commission's April 24, 1996 Order.

a. Has the Business Plan been updated? If yes, provide the updated version with each updated item identified in an index at the front of the document. If no, explain how often the plan is reviewed and how changes in assumptions and plans are reflected.

b. Design a benchmark with deadbands for Columbia of Kentucky based upon the design agreed to by Columbia of Pennsylvania and the Pennsylvania Trial Staff. Explain why this type of sharing mechanism is inappropriate to capacity sales occurring on behalf of Kentucky operations.

c. Provide the guidelines CDC developed prior to November 1, 1993, for use in its participation in the capacity release markets. If CDC has modified those guidelines since then, provide the modifications made and the justification for those modifications.

d. Has CDC determined what direction it wants to take with regard to gas costs and with regard to its total costs?

Provide any internal memorandum or other information CDC has developed regarding this.

e. Given that CDC could be managing several unique programs in the various jurisdictions in which it operated, has the company considered a collaborative process involving all of the jurisdictions so that each is assured of fair treatment? Why? Discuss the obstacles CDC perceives of such a collaborative.

f. Provide a costs verses benefits analysis of the incentives proposed, for Kentucky operations.

g. Provide methodology for estimating potential revenues from off system sales.

h. Provide a table, similar to that provided on page 37. The revenues and expenses listed should be broken down by the source of the revenue and the expense. Additionally, identify each expense in the same manner as they were identified in the Business Plan as detailed in paragraph 3 of page 28 of the Business Plan. For each item on the Table that is the result of an allocation, provide the basis for that allocation including all workpapers, assumptions, and other internal documentation for the level of the allocation.

Done at Frankfort, Kentucky, this 14th day of May, 1996.

PUBLIC SERVICE COMMISSION

Linda K Breathitt

For the Commission

ATTEST:

Don Mills

Executive Director